

**September 26, 2006 – Subcommittee on Livestock and Horticulture  
House Committee on Agriculture  
Testimony of Paul C. Dolan, III, President Mendocino Wine Company  
Chairman of Wine Institute**

Thank you for inviting me to testify before the Subcommittee on Livestock and Horticulture, of the House Committee on Agriculture, for its hearing on the upcoming reauthorization of the Farm Bill. My name is Paul Dolan, and I am the President and co-founder of Mendocino Wine Company in Ukiah, California. It is a pleasure for me to be here today representing Wine Institute, of which I am Chairman.

Established in 1934, Wine Institute is the public policy advocacy group of 975 California wineries and affiliated businesses that initiates and advocates state, federal and international public policy to enhance the environment for the responsible consumption and enjoyment of wine. Wine Institute also provides its members with support on international market development, scientific research and education programs, and, with the California Association of Winegrape Growers (CAWG), a sustainable winegrowing program that promotes environmentally and socially responsible winemaking and grape growing practices for the California wine community. Wine Institute seeks to broaden public understanding of the wine industry and its legitimate and important role in the American economy, lifestyle and culture. Wine Institute membership represents 95 percent of California's wine production and 85% percent of U.S. production.

My name is Paul Dolan and I am the fourth generation of my family to be involved in winemaking and winegrowing in California. My grandfather, Edmund Rossi, ran Italian Swiss Colony, in Asti, Sonoma County, California, where I spent time every summer. Before establishing Mendocino Wine Company, with my family and our partners, the Thornhill family, I spent 27 years at Fetzer Vineyards, 12 as its president.

I believe these deep roots in our business give me a rare and uncommonly informed view of the past, present and future of the wine and grape business in my home state of California, in the United States at large, and in the increasing globalized world market. Given the importance of the wine and grape industries to the future of the United States agricultural economy, the opportunity to join the debate on the reauthorization of the Farm Bill is invaluable. Let me first share with you some important statistics about my industry.

Grapes and winegrape crops are produced in about 40 states. Grapes are the sixth largest agricultural crop in the U.S. producing more than \$3 billion worth of fruit. Grapes are the highest value fruit crop per acre in the nation, and have the highest farm gate value of any specialty crop.

As vineyards continue to expand, so do the number of producing wineries. There are over 4,000 wineries in the United States and at least one winery in each of the 50 states.

Wine production from grapes consumes approximately half of the average annual grape crop. The nation's top wine producing states are: California, Washington, New York, Oregon, Pennsylvania, and Michigan. California produces about 90 percent of the volume.

Winegrapes are the ultimate value-added agricultural crop. Wine production adds value of at least \$2 for each \$1 of farm gate value. It is a signature product for California and a driving force of the California economy. The overall economic impact of the wine industry on the economy of California grew by nearly 40% between 1998 and 2002. According to a 2004 study sponsored by Wine Institute and CAWG, *Economic Impact of California Wine*, the full economic impact of wine on the California economy is \$45.4 billion. Wine is the number one finished agricultural product from California.

### **Wineries and Winegrapes in California**

Wineries and winegrape growers are deeply rooted in our communities. There are 2,000 wineries in California. Winegrapes are grown in more than 45 of California's 58 counties by 4,805 growers covering 522,000 acres. The industry generates 207,550 full-time equivalent jobs with \$7.6 billion in wages paid. The retail value of California wine is \$16.5 billion. The state's wineries attract 14.8 million visitors annually. Annual taxes paid by the California industry to the state are about \$1.9 billion and \$5.6 billion total, including other states and the federal government.

The industry has grown by expanding its market and creating new products as it continues to improve product quality. American consumers are buying more wine and they are also buying more expensive wine. The most rapidly growing segment of the wine market is "premium" wine – wine over \$15 per 750 ml bottle, a trend that strongly benefits growers and vintners. California is at the center of America's quality wine production, making California the fourth largest wine producer in the world, after France, Italy and Spain.

Statistics alone do not adequately measure the intangible value the wine industry brings in terms of overall benefits to community and individual well-being, enhanced quality of life, limitation of urban sprawl and greater visibility for the State of California worldwide. Working to keep the California wine industry in its premier position in the global wine market and ensure its long-term success will protect the significant benefits it provides to the State of California.

### **Key Industry Trends**

**Production/Consumption Imbalance:** In recent years, we have experienced a significant production/consumption imbalance. As a result, nearly 80,000 acres of winegrape vineyards have been removed from production. Some industry experts estimate that as many as 20,000 acres of vineyards have been abandoned. The slowing economy earlier this decade came at a time when new plantings of the late nineties were just coming into production. The aggressive, but painful removal of so many acres of

vines, the success of the relatively new “super value” wine category (wines under \$3 per 750 ml.), expanding exports and an improving economy appear to have corrected the supply/demand imbalance for most varietals.

**Imports:** U.S. imports of wine have risen consistently for the last decade, as the rising U.S. dollar improved the competitiveness of imports and new importers targeted the key middle market wine segment – wines in the \$5-8 or \$5-10 segment.

Imports now represent more than 27% (as of 2005) of the wine consumed in the U.S. Since 1984, the value of imported wine has increased from \$954 million to \$3.8 billion in 2005 in revenues to producers. While the weakening of the dollar has increased pressure on importers, many are absorbing the adjustments to avoid increasing prices and potentially undermining their hard-won market shares.

A significant structural change has occurred in the U.S. market for imports, with “New World” wines, particularly Australian, claiming an accelerating market share. Concurrently, sales of “Old World” – European – wines have been rising at a much slower rate and, in volume terms, sales of French wines have been flat or declining.

Australia surpassed France in volume of imports to the U.S. in 2002 and is poised to overtake Italy as the number one importer to the U.S. Australia’s success reflects skilled marketing in a focused, export-driven campaign, strongly supported by government and a well-organized industry. A strong partnership between the Australian industry and its government has also created one of the best research programs for viticulture and enology in the world. In fact, its annual \$25 million investment in research over the past fifteen years can be seen as the key driver to improving quality and marketability of Australian wines into the export market. According to the Australian Broadcasting Corporation, the Western Australian wine industry is requesting AUS\$1.8 million from the state government for a U.S. marketing push.<sup>1</sup> In addition, the French government recently launched a multi-million euro program to rescue France’s struggling wine industry, including 12 million euros to develop a “France” wine brand and to support exports to fast-growing markets including the United States.<sup>2</sup>

**Sustainable Winegrowing Practices:** Even though California is one of the most productive agricultural regions of the world and by far the most productive in the U.S., we farm in the country’s most populated state. 12.5 percent of the U.S. population resides in California. Our current population is 36 million and we are growing at about 550,000-600,000 people a year. By 2050 we will have 55 million Californians – and we will need 7 million more homes for them, 10 million more jobs for them, and roads for 12 million more motor vehicles. These factors cause an intense competition for natural and agricultural resources in the State.

California’s rural areas are changing dramatically as a result of our population explosion

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<sup>1</sup> ABC On-line, “Gov’t asked to provide funds for US wine push,” March 30, 2006, [www.abc.net.au](http://www.abc.net.au).

<sup>2</sup> Decision News Media SAS, “French government unveils wine rescue plan,” March 30, 2006.

and urban encroachment. The wine community has responded proactively. More than four years ago Wine Institute and CAWG partnered to create the Code of Sustainable Winegrowing Practices. We knew that if we wanted to maintain a positive business and public policy atmosphere we needed to demonstrate that we produce wine with practices that are environmentally sound, economically feasible, and socially responsible. That means being able to maintain market share in a fiercely competitive global market while keeping good neighbor and community relations. In addition to the decrease in available farm land and water for agriculture, we were also witnessing trends in consumer demand for products produced in a sustainable manner, both in the U.S. and abroad.

Food and wine companies – like autos and electronics – are viewing their value chains in a broader and more holistic way as they take moves to manage risk at every step. Brand identity and company/industry reputation have increasing importance in today's global marketplace. Documented sustainable practices increase our value to the consuming public and the market's gatekeepers, like retailers and others in the distribution chain.

On a long-term basis, growers and vintners see sustainability as a way to differentiate their product in a very competitive world market. But, it's much more than that. Being good stewards of the land and good neighbors are important business and personal values in the wine community. Most owners and employees live at or near their vineyards and strive to maintain a healthy and beautiful environment for themselves, their neighbors and wine country visitors. They work to produce high quality grapes and wine and they want to pass the legacy of these family-owned businesses to future generations.

In order to help us achieve our vision to be a world leader in sustainable practices, a 50-member joint committee was formed by Wine Institute and CAWG to develop and implement the Sustainable Winegrowing Program. An evaluation of what we needed to do showed that we had a rich foundation of programs at the regional level and a number of innovative individuals and companies. Our committee quickly came to a consensus that a voluntary self-assessment tool that includes best practices for both vineyard and winery operations would best serve the industry and appeal to the broadest array of growers and vintners.

The resulting publication of California's *Code of Sustainable Winegrowing Practices Self-Assessment Workbook* includes six chapters licensed from the Lodi Woodbridge Winegrape Commission and all new materials for winery practices and neighbors and communities. The workbook allows us to benchmark our practices relative to regional and statewide data in 221 criteria addressed in 13 chapters: viticulture, soil management, vineyard water management, pest management, wine quality, ecosystem management, energy efficiency, winery water conservation and quality, material handling, solid waste reduction and management, environmentally preferred purchasing, human resources, and neighbors and communities. We have recently added a chapter on air quality.

Since November 2002, we have held over 150 educational workshops throughout the state, attended by several thousand winery and vineyard enterprises. More than 1,300

workshop participants have evaluated their operations using the workbook. In October 2004, we released the first statewide *California Wine Community Sustainability Report* based on the submission of self-assessments to help us establish baselines and identify targets for improvement. We are now in the process of holding action plan workshops to help participants identify their goals and create action plans for improving practices in their vineyards and wineries. Follow-up reports will track ongoing progress.

Our work on sustainable winegrowing benefits California's social, environmental and economic needs and has received recognition as a model by:

- Governor Schwarzenegger (Governor's Environmental and Economic Leadership Award, 2004)
- California Council for Environmental and Economic Balance (Governor Edmund G. "Pat" Brown Award, 2005)
- California Department of Pesticide Regulation/Environmental Protection Agency (Integrated Pest Management Innovator Award, 2003)
- The *White House Conference on Cooperative Conservation* recognized the program as a model for conservation (August 2005).

California farmers and processors face unique environmental challenges because of our more stringent state and local environmental regulations. Viticultural practices and the cost of doing business are directly impacted by new air quality rules and emerging water quality regulations. Wineries are facing additional compliance costs for the treatment of winery process water and stringent rules to reduce ethanol emissions created in the fermentation of red wine and brandy.

This new era of intense regulation requires producers to demonstrate success in solving environmental problems and to reduce current and future environmental liabilities. The Sustainable Winegrowing Program provides practical best practices designed to generate tangible results that benefit our industry and the general public.

**Export Expertise:** The expansion of exports of California wine over the last decade has been dramatic: from \$196 million in 1994 to \$672 million in 2005. Sustaining these exports while the U.S. dollar was rising earlier this decade made this growth particularly notable. New markets have been penetrated, new products introduced in all price segments and market share has increased.

Wine Institute manages the California Wine Export Program, using resources from USDA's Market Access Program (MAP). This program provides up-to-date information on export market dynamics, marketing opportunities and promotion in over 20 countries. The MAP is essential to the continued growth of California wine sales overseas.

U.S. wines continue to face substantial competition in the international market and cannot afford to be saddled with restrictive trade barriers. U.S. producers must contend with a heavily subsidized and protected EU wine industry. The popularity of wines from Australia, New Zealand, South Africa, Chile, and Argentina combined with relatively

weak currencies in those countries makes them formidable competitors.

Previous multi-lateral and bi-lateral trade negotiations have created situations for the wine industries of the U.S. trading partners that are much more advantageous for them than they are for the U.S. wine industry itself. Only a concentrated effort by the wine industry, the Administration and Congress will overcome trade barriers and unfair trade practices throughout the world. Subsidies, protectionist policies and tariffs all inhibit the competitiveness of the U.S. wines.

California has the water, the soils and the climate to produce a broad range of wine styles to please any palate. We can compete but we need continued Congressional support for the matching funds provided through MAP and for the reduction of foreign wine tariffs to help us break into heavily subsidized markets.

**Pests and Disease Issues:** On behalf of the industry, I want to take this opportunity to once again express our appreciation to Congress and the Administration for helping to create and support the Pierce's disease/Glassy-winged Sharpshooter Program. Pierce's disease (PD), a fatal infection of grape vines and dozens of other plants by the bacterium *Xyella fastidiosa* (Xf), is being spread throughout California by the Glassy-winged Sharpshooter (GWSS). GWSS was first detected in California in 1989. It has invaded much of Southern California and is established in the southern San Joaquin Valley.

This vigorous and difficult-to-control insect vector, indigenous to the southeastern United States and northern Mexico, threatens California's entire grape and wine-producing community. Commercial grape varieties grown in California cannot tolerate infection by the Xf bacterium and are quickly killed or rendered uneconomical. There is no cure for Pierce's disease. The onslaught of the GWSS and its spread of Pierce's disease triggered a massive and expensive cooperative response by federal and state agencies, California nurseries, citrus and winegrape growers to contain, control and eradicate new infestations of the GWSS in California. There are many crops and commodities threatened by the agents that cause Pierce's disease, including almonds, citrus, stone fruits, alfalfa and oleander. The risks to California agriculture presented by the GWSS and PD were recognized by a USDA declaration of emergency on June 23, 2000, and a subsequent allocation of CCC funds to conduct research, manage and fight the disease.

The immediate response of state and federal government working with industry to stop the movement of the pest and implement a research program to find long-term management solutions for the disease is truly appreciated by growers and vintners. In fact, earlier this year, almost ninety percent of the growers and vintners voted to extend an assessment on winegrapes for another five years to fund research for the control of Pierce's Disease and the Glassy-winged Sharpshooter. Since the program was created, the industry assessment has raised more than \$21 million to help fund over 100 research projects and to partner with the state and federal government to implement an effective program. The total state, county, university and commodity contributions in the form of in-kind services, budget allocations and compliance to prevent pest movement are estimated to be about \$24 million a year.

The control and containment program, which is a function of state and federal government, is resource intensive. Congress has appropriated money for the program beginning in FY 2001 and every year thereafter. However, the program has not been fully funded on an annual basis forcing ongoing reliance upon emergency CCC funding for containment and control activities. We have just learned that the Office of Management and Budget has denied the release of \$5.2 million in emergency funding despite a FY 2005 Agricultural Appropriations conference report request. While progress is being made, events this spring have shown the need to fully fund this vital program. Multiple GWSS egg masses were found on nursery plants shipped to Napa, Sonoma and San Joaquin counties, underscoring the importance of an aggressive containment and control program with a strong nursery shipping inspection program.

We cannot afford anything less than a fully funded program to prevent the movement of the pest and the potential for infestations that spread the disease. Full funding of the program, approximately \$28 million, is being sought for the next fiscal year.

Currently, the industry is fighting an infestation by Vine Mealy bug. The Vine Mealy bug is an exotic pest first found in the Coachella Valley, Riverside County in 1994. Since then, it has spread to an additional 18 counties. The pest feeds on grapes, fig, pomegranate, avocado, date palm, apple, quince, and certain ornamental plants. Not only does the pest feed on sap, it also excretes large amounts of honeydew as it feeds, fouling the plant. The pest's activities provide a food source for sooty mold, attracts ants, and reduces the quality of harvested grapes.

Vine Mealy bug threatens over 900,000 acres of wine, raisin and table grapes and over \$3 billion in derivative annual income in California. To meet this threat, a cooperative work group has been formed, including representatives of the grape industry, the Animal and Plant Health Inspection Service (APHIS), the University of California, the California Department of Food and Agriculture and California County Agricultural Commissioners. This group has developed a program that includes public education; detection, monitoring and mapping surveys; research; and a control program implementation plan. The industry has invested more than \$1 million for research and is seeking \$1.2 million from APHIS for a biocontrol program to eliminate this pest.

The constant introduction of new pests and diseases with the free and easy movement of people and products underscores the critical importance of an adequately funded exotic pest/disease exclusion and detection program at the state and federal levels. APHIS must have all the resources it needs to assure the highest possible level of pest exclusion activities to protect agriculture, natural resources and public health from exotic pest and diseases.

**Research.** California winegrape growers and vintners are innovative, adaptive and willing to meet new challenges. Success in maintaining a competitive edge is directly tied to investment by industry and government in research and extension of research results to stimulate innovation by industry and early adoption of best practices. Countries

such as Australia have taken the investment model and are now outpacing the United States in product development and improvements. The Australian government has a matching dollar program for grape and wine research that is part of a \$25 million (US\$) annual investment program for the grape and wine sector – significantly higher than the United States. The U.S. needs to expand its investment in grape product research and development if we hope to continue our record of growth and economic success.

In 1996, the industry created the Viticulture Consortium, administered by Cornell University, Pennsylvania State University and the University of California (Davis). The Consortium funds grants for state researchers in about twenty states through a competitive process. The Consortium raises funds from both the industry and state sources to match federal support. As an active partnership of federal, state and industry resources, it is a keystone of grape related research in the United States.

In addition, in 2004, to gain the broader perspective of the grape and grape product industry, we created the National Grape & Wine Initiative, an alliance of wine and grape producers to promote sustained growth through increased spending on research and extension activities. Members include national representatives for wine, juice, raisins and table grapes; and wine and juice producers; as well as academics and government officials.

The initiative's goal is to triple the industry's economic impact to \$150 billion by the year 2020, by strongly increasing market share and becoming the world leader in value and sustainability, as well as contributing to the quality of life in rural communities by identifying shared priorities for research and development and working together to see them implemented.

For example, the Initiative is collaborating with ARS and CSREES at USDA to incorporate industry priorities into their programs. We are also working with the House and Senate Committees on Appropriations to fully fund the Viticulture Consortium, ARS viticulture research, the Market Access Program, Pierce's disease and other key research and development programs.

At the same time, we are pursuing aggressive fundraising within the winegrape and wine community to provide matching funds. We recognize that meeting the competitive challenges we've outlined here today will require an unprecedented commitment and cooperation by the industry and its supporters.

The Farm Bill debate is a perfect forum for this discussion to crystallize in earnest. I commend the members of the Subcommittee for calling this hearing to listen to the views of those of us in the specialty crop sector. I know that several of its members are working on specialty crop legislation to be introduced soon, and Wine Institute applauds your efforts. The drafts of the bill that we have seen are thoughtful, and contain provisions essential to ensuring the continued economic viability of our industry sector. Wine Institute pledges to work with the authors and the members of this committee on this important legislation.



To that effect, we are delighted to share with you what we would like to see included in the next Farm Bill to achieve our worthwhile goals. We look forward to working with both our colleagues in the specialty crop sector and key policy makers to help Congress craft a Farm Bill for the 21<sup>st</sup> Century, one that will contain innovative ideas and concepts that can be transferred from one agricultural sector to another and tailored to meet the needs of all users.

We strongly believe that it would be a grave mistake to try to simply extend the existing Farm Bill. We as a country can not afford to be in denial about the new issues we face in agriculture. Specialty crop producers face serious challenges. This is particularly true for my business. In part, these challenges include: increasing competition from lower cost foreign producers; declining availability of labor, land, water and energy resources; persistent and serious pressure from insect and plant diseases; increasing costs and greater management complexity from state and federal regulations; and greater demand for improved microbiological food safety.

While the challenges facing specialty crop producers have increased, research and extension capacity to address specialty crop producer problems has decreased in the US dramatically. I am aware that this combination of increasing challenges and fewer resources to address serious problems leaves you with hard problems to solve as you work to readdress agricultural policy. But I believe that this is what this Farm Bill debate needs to address.

Mr. Chairman, we look forward to working with you, your Committee and the Senate in the coming months as you undertake the challenge of writing a Farm Bill for the 21<sup>st</sup> century. Your support for our industry is much appreciated and I thank you for this opportunity to testify.

## PAUL DOLAN

Paul Dolan believes that business leaders can help make a better world, and he sees Mendocino County, California, as fertile ground to grow this vision. During his 27 years at Fetzer Vineyards, 12 as president, he led a transformation that put the company at the forefront of organic viticulture and sustainable business. With the creation of Mendocino Wine Company (MWC), a partnership of the Dolan and Thornhill families, the mantle of leadership in sustainable winegrowing shifted from Fetzer to MWC, while remaining cradled in the open, creative atmosphere of Mendocino County. “We want to make a difference in this community,” says Paul, “and we will.”

Deeply dedicated to Mendocino County, Paul is determined to bring greater recognition to its farmers, winemakers and wines. This community of creative people demonstrates an abiding commitment to natural beauty, clean air, anti-GMO regulation and healthy farming. “When Mendocino farmers get together, we talk about organics and biodynamics because we strongly believe these practices are good for the land and for wine quality,” says Paul. “There is an energy here that stimulates a creative approach to business.”

While Paul’s history in this county goes back decades, his family’s involvement in the wine industry extends back four generations through the Rossi and Concannon families. Growing up in Oakland, Paul spent a month each summer in Asti, Sonoma County, where his grandfather – Edmund Rossi – ran Italian Swiss Colony. “During the rest of the year, Granddad visited us in Oakland every weekend,” remembers Paul. “At our family table you could always count on great food and wine, and stories of the old days.”

As an undergraduate at Santa Clara University, Paul studied business and finance. Shortly before he graduated, he wrote a paper on the wine industry (advised by his winemaking uncle, Ed Rossi), and Paul’s family legacy came alive. In 1975 he enrolled in the Enology program at California State University, Fresno ultimately receiving a Masters Degree with honors. In 1977 Paul joined forces with the Fetzer family as their first non-family winemaker. They grew the business to two million cases a year, with regularly glowing acclaim and awards for their wines. After the Fetzers sold their family business, Paul became president of the company under its new ownership.

Today, at Mendocino Wine Company, he continues to break new ground. “We are clear about what we want,” says Paul: “an environmentally and socially conscious winery making great wines from Mendocino. We want to have fun, reaching out to new audiences with each wine carrying a fresh look and message.” Paul and MWC winemaker Bob Swain work with a constant focus on quality, seeking to match each wine’s flavor profile and style with the exciting new packaging and branding.

Paul’s greatest passion, however, is winegrowing at his family-owned Dark Horse Ranch, east of the Russian River in the foothills north of Hopland. He and sons Heath and Jason chose this place because of its diverse natural beauty, dramatic terrain and deep red soils.

It has been a family project and a labor of love to convert 70 acres of grapes into a certified Biodynamic® vineyard. An earnest student of Rudolf Steiner (the father of the biodynamic movement), Paul embraces Steiner's premise that each piece of land has its own unique expression; and the Dolan family will capture that expression of their family vineyard in the bottle at MWC. In 2004 Paul and his sons harvested the first Dark Horse grapes (Syrah and Petite Sirah). The resulting wines will be released in 2006 under the Paul Dolan label. "Dark Horse Ranch is my family's home, where my sons are fifth-generation winegrowers in the Russian River basin. We're rooted here. I am part of the fabric of this place: the water, air, wine and food are part of me."

Paul's goal is to make Mendocino Wine Company a model for the wine business. In turn, he is determined to develop the wine industry as a model for all agriculture, worldwide. This is the message he delivers as an industry leader, winemaker, farmer and father. Paul knows that sustainability is an economic asset and a competitive advantage, as well as an imperative for healthy life on this planet. He is spreading the word – for the good of business, the community and the environment.

*A sustainable business should be a whole business, like a whole person. It must have integrity. It must have a moral center. It must be connected to its values and the greater world. It must aspire to do what is right, not just for the bottom line, not just from a legal standpoint, but from a moral and ethical standpoint. It's not only accountable, it's responsible.* Paul Dolan, True to Our Roots, Fermenting a Business Revolution, 2003

Paul resides in Healdsburg, California with his wife Diana and daughter Sassicaia. He spends leisure time in his Mendocino County vineyards and on horseback at Dark Horse Ranch.